
Department of Labor and Industries (L&I)

Agency: 235

Audit Report: 2004 Statewide Accountability Report

Finding Number: 04-13

Finding: The Department of Labor and Industries did not provide evidence that it complied with state bid laws when purchasing information technology services totaling more than \$7.2 million.

Resolution: The Department concurs with this finding. The Department's scoring of each response to these three advertisements should have been listed on a score sheet like all other advertisements. While each response was evaluated, all their scores were not transferred to a score sheet. All qualified vendors did have the opportunity to participate and each of their responses was evaluated by a highly qualified team of Information Technology professionals. A reminder has been sent to all current contract managers to keep adequate documentation of the competitive contracting process and that this documentation must be kept for six years after the contract has ended. In addition, this requirement will be stressed in future training of new contract managers.

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Agency: 235

Audit Report: 2004 Statewide Accountability Report

Finding Number: 04-19

Finding: The Department of Labor and Industries' Pension Payment System lacks adequate internal controls to ensure that public resources are safeguarded.

Resolution: While the Department does not agree with the overall finding, the Department used the results of the audit to institute several changes to reinforce and improve controls over the pension system:

- Several pension procedures have been added to the Department's existing audit control report to notify the pension supervisor of changes made in recipient or benefit payment information. This report is used to randomly select cases for supervisor review to validate the accuracy and validity of the changes made.
- A data match with Department of Vital Statistics is used to identify pension recipients who have remarried and may no longer be entitled to receive payments.
- Additional internal controls were put into place immediately. For example, the supervisor began a random review of a sample of one-time pension payments less than \$50,000 (all payments of \$50,000 or more are already reviewed). In addition, the ability for the pension program manager or supervisor to create a change in benefits has been eliminated.

While there are no plans to have a second staff member review the creation of each new pension record, every 20th pension case is reviewed for accuracy and agreement with supporting documentation by a second pension specialist. This second review is documented in the claim file. In addition, the data entry of certain critical elements by support staff is reviewed by the office assistant lead in all cases. Errors noted are brought to the attention of the support staff, the pension benefit specialist, or the unit supervisor, depending on the level of the error.

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Department of Labor and Industries (L&I)

Agency: 235

Audit Report: 2004 Statewide Accountability Report

Finding Number: 04-20

Finding: The Department of Labor and Industries does not perform a periodic reconciliation between its unique payment systems and the financial system.

Resolution: The Department concurs with this finding and has taken the following corrective action:

- Accounting Services reviewed the Benefit Payment System (BPS), Pension Payment System (PPS), and Medical Information Payment System (MIPS) to determine what was needed to perform the reconciliations and to develop the reconciliation procedures. Based on the review, the Department concluded business system changes and report development were needed, and a service request was submitted to Information Services (IS) in March 2005. IS staff is working on BPS and PPS system changes which are scheduled for completion by June 30, 2006. A report for the MIPS system has been developed.
- The reconciliation of the data between the MIPS system and the Agency Financial Reporting System (AFRS) has been completed for July 2004 through June 2005 with the differences between them identified and explained. Accounting Services will continue to perform monthly reconciliation of MIPS.
- While the reconciliation processes are being fully developed, the Department has begun reconciliations of the majority of the transactions processed by the Department's unique systems to AFRS.

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Audit Report: 2004 Statewide Accountability Report

Finding Number: 04-24

Finding: The Department of Labor and Industries destroyed inventory records prior to the approved destruction date.

Resolution: The Department concurs with this finding. The Department will ensure that all of the inventory listings for official physical inventories are kept according to approved record retention schedules. The Department updated the agency policy to specifically require a six-year retention of official biennial physical inventory records. The Department indicated for each asset record in the asset accounting system the date the asset was last officially inventoried.

During the Fiscal Year 2005 audit of L&I, the State Auditor's Office followed-up on this audit finding and preliminary comments indicate this audit finding has been resolved.

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Agency: 235

Audit Report: 2004 Statewide Accountability Report

Finding Number: 04-25

Finding: More than \$9 million in employer industrial insurance premium payments recorded as being received by the Department of Labor and Industries between July 2003 and December 2003 were not reflected as being deposited in the state's financial system. Contributing factors to this difference could be employee misappropriation, inaccurate reports or timing differences.

Resolution: The Department concurs with this finding and has taken the following corrective actions:

The Department concurs that posting of payments to employer accounts by the cashier's office is a control weakness given the lack of segregation of duties. Effective February 14, 2005, Accounting Services staff assumed responsibility for posting entries into the Department's Employer Accounting (EASE) system. The transfer of these duties required Information Services staff to reconfigure EASE and create view-only screens. In March 2005, the Department provided employees in the cashier's office with view access only and removed their ability to update employer accounts.

The Department has reallocated staff to reconcile the data in EASE with Agency Financial Reporting System (AFRS) records on an ongoing basis. To date, the reconciliation of the data between EASE and AFRS has been completed for July 2004 through June 2005. Accounting Services will continue to perform this monthly reconciliation. The differences identified to date are as follows:

- 84 percent is related to a timing difference between when data is posted to EASE and to AFRS
- 11 percent NSF checks
- 5 percent EASE reporting issues

In addition, the Department implemented a daily reconciliation process for the cashier's transactions processed. The Department will continue to insure that all adjustments have supporting documentation. The daily reconciliation process was strengthened with the assignment of the additional staff to support the process.

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